

**REPORT OF THE AUDIT OF THE  
GRAYSON COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**June 18, 2002**



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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Gary Logsdon, Grayson County Judge/Executive

Honorable Joe Brad Hudson, Grayson County Sheriff

Members of the Grayson County Fiscal Court

The enclosed report prepared by Stephens & Lawson, PSC, Certified Public Accountants, presents the Grayson County Sheriff's Settlement - 2001 Taxes.

We engaged Stephens & Lawson, PSC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Stephens & Lawson, PSC, evaluated the Grayson County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
GRAYSON COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**June 18, 2002**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**GRAYSON COUNTY**  
**SHERIFF'S SETTLEMENT - 2001 TAXES**

**June 18, 2002**

The Grayson County Sheriff's Settlement - 2001 Taxes audit was contracted to Stephens & Lawson, PSC through a request for proposal (RFP). We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected net taxes of \$4,633,943 for the districts for 2001 taxes. The Sheriff distributed taxes of \$4,628,617 to the districts for 2001 taxes. Taxes of \$855 are due the districts from the Sheriff and no refunds are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff Should Eliminate The Deficit Of \$1,447 In The Tax Account
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits





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To the People of Kentucky

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Honorable Joe Brad Hudson, Grayson County Sheriff  
Members of the Grayson County Fiscal Court

Independent Auditor's Report

We have audited the Grayson County Sheriff's Settlement - 2001 Taxes as of June 18, 2002. This tax settlement is the responsibility of the Grayson County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares his financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Grayson County Sheriff's taxes charged, credited, and paid as of June 18, 2002, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Gary Logsdon, Grayson County Judge/Executive  
Honorable Joe Brad Hudson, Grayson County Sheriff  
Members of the Grayson County Fiscal Court

Based on the results of this audit, we present the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance.

- The Sheriff Should Eliminate The Deficit Of \$1,447 In The Tax Account
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

*Stephens & Lawson, P.S.C.*

Stephens & Lawson, P.S.C.

Audit fieldwork completed -  
December 10, 2002

GRAYSON COUNTY  
JOE BRAD HUDSON, SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES

June 18, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 367,707	\$ 662,604	\$ 2,132,703	\$ 770,272
Tangible Personal Property	50,371	82,780	240,062	220,172
Intangible Personal Property				96,062
Fire Protection	5,452			
Oil Property	1	1	4	1
Limestone, Sand, and Gravel Reserves	88	152	510	184
Franchise Corporation	40,423	67,677	200,001	
Additional and Supplemental Billings	198	379	1,129	472
Bank Franchises	56,348			
Penalties & Interest	3,424	6,198	19,450	7,278
Adjusted to Sheriff's Receipt	1,529	2,598	(23)	(40)
Gross Chargeable to Sheriff	\$ 525,541	\$ 822,389	\$ 2,593,836	\$ 1,094,401
<u>Credits</u>				
Exonerations	\$ 1,173	\$ 2,078	\$ 6,486	\$ 3,514
Discounts	7,337	10,874	34,518	15,848
Delinquents:				
Real Estate	10,630	19,227	61,307	22,116
Tangible Personal Property	541	890	2,384	2,828
Intangible Personal Property				394
Uncollected Franchise	39	65	189	
Total Credits	\$ 19,720	\$ 33,134	\$ 104,884	\$ 44,700
Net Tax Yield	\$ 505,821	\$ 789,255	\$ 2,488,952	\$ 1,049,701
Less: Commissions*	21,785	33,543	99,558	44,900
Net Taxes Due	\$ 484,036	\$ 755,712	\$ 2,389,394	\$ 1,004,801
Taxes Paid	483,494	754,803	2,386,414	1,003,906
Refunds (Current and Prior Year)	431	728	2,428	884
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	\$ 111	\$ 181	\$ 552	\$ 11

The accompanying notes are an integral part of the financial statement.

GRAYSON COUNTY  
JOE BRAD HUDSON, SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES  
June 18, 2002  
(Continued)

\* Commissions:

10%	on	\$	10,000
4.25%	on	\$	2,334,777
4%	on	\$	2,488,952

\*\* Special Taxing Districts:

Library District	\$	42
Extension District		28
Health District		42
Hospital District		69

Due Districts or (Refund Due Sheriff)	\$	<u>181</u>
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GRAYSON COUNTY  
NOTES TO FINANCIAL STATEMENT

June 18, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 7, 2001 the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$142,136 of public funds uninsured and unsecured.

GRAYSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
June 18, 2002  
(Continued)

Note 2. Deposits (Continued)

The Sheriff's deposits are categorized below to give an indication of the level of risk assumed by the Sheriff as of December 7, 2001.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 3,155,000
Insured by Federal Deposit Insurance Corporation	100,000
Uncollateralized and uninsured	<u>142,136</u>
Total	<u>\$ 3,397,136</u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 23, 2001 through April 30, 2002.

Note 4. Interest Income

The Grayson County Sheriff earned \$2,698 as interest income on 2001 taxes. As of December 10, 2002, the Sheriff owes \$47 in interest to the school district and \$36 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Grayson County Sheriff collected \$31,342 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs and Fees

The Grayson County Sheriff collected \$4,182 of advertising costs fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising costs and fees will be used to operate the Sheriff's office. As of December 10, 2002, the Sheriff owes \$986 in advertising costs and \$486 in fees to his fee account.

Note 7. Deficit Balance

Based on available records there is a \$1,447 deficit in the Sheriff's official tax account. We were unable to determine the cause of this deficit. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule.



SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS



GRAYSON COUNTY  
JOE BRAD HUDSON, SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

June 18, 2002

Assets

Cash in Bank	\$ 1,012
Total Assets	<u>\$ 1,012</u>

Liabilities

Paid Obligations-		
Outstanding Checks	\$ 56	
Unpaid Obligations-		
2001 Taxes Due Districts:		
State	\$ 11	
Grayson County Fiscal Court	111	
School District	552	
Library District	42	
Health District	42	
Extension District	28	
Hospital District	<u>69</u>	855
2002 Sheriff Fee Account		1,501
Interest Due School District		<u>47</u>
Total Liabilities		<u>\$ 2,459</u>
Total Fund Deficit as of June 18, 2002		<u>\$ (1,447)</u>

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## COMMENTS AND RECOMMENDATIONS



GRAYSON COUNTY  
JOE BRAD HUDSON, SHERIFF  
COMMENTS AND RECOMMENDATIONS

June 18, 2002

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Eliminate The Deficit Of \$1,447 In The Tax Account

Based on available records, there is a deficit of \$1,447 in the Sheriff's tax account. We were unable to determine the cause of this deficit. We recommend the Sheriff deposit \$1,447 from personal funds into the tax account to eliminate this deficit.

*Sheriff's Response:*

*None.*

2. The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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On December 7, 2001, \$142,136 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response:*

*None.*

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Gary Logsdon, Grayson County Judge/Executive  
Honorable Joe Brad Hudson, Grayson County Sheriff  
Members of the Grayson County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Grayson County Sheriff's Settlement - 2001 Taxes as of June 18, 2002, and have issued our report thereon dated December 10, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Grayson County Sheriff's Settlement - 2001 Taxes as of June 18, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate The Deficit Of \$1,447 In The Tax Account
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Grayson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our considerations of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

*Stephens & Lawson, P.S.C.*

Stephens & Lawson, P.S.C.

Audit fieldwork completed -  
December 10, 2002

